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Extended Unemployment Benefits

Early predictions that the current recession would be short-lived now appear to have been overly optimistic. Labor markets recovered slowly following the recession of the early 1990s, and this recession shows signs of a similar pattern. Since September 2002, over 41 percent of Unemployment Insurance (UI) recipients have been exhausting their regular UI benefits, an all-time high. Also, in the last year, more than 20 percent of the unemployed have been jobless for longer than 26 weeks, the first time this has occurred since 1994.

The problem of long-term unemployment is serious at all times but typically gains attention only during recessions. Here, we discuss the ability of the UI system to address long-term unemployment.

Unemployment Insurance can be viewed as a three-tiered program. The “regular” benefits that are financed and administered by each state constitute the program’s first tier. The second tier of the UI system is the permanent or “standby” extended benefit program (standby EB), which Congress established in 1970. The standby EB program is intended to activate automatically when unemployment rises, extending the potential duration of a worker’s benefits by 50 percent (up to 13 weeks). The third tier of the UI system is made up of the “emergency” benefit extensions that Congress has enacted in every recession since 1958. These emergency extensions have varied greatly in their generosity, financing, and eligibility criteria.

How Extended Benefits Work

Standby EB, the second tier of the UI system, is a permanent extended benefits

program that is intended to activate automatically in a recession—rather than requiring congressional discretion and action—and is financed half-and-half by the states and the federal government. (Regular UI benefits are financed out of state UI trust funds, whereas most emergency extended benefits have been financed out of the federal UI trust fund.) Weekly benefits under standby EB are the same as weekly benefits under the regular state program.

Originally, standby EB was activated in a given state whenever the state’s 13-week average insured unemployment rate (IUR) reached 4 percent and was at least 20 percent higher than its average in the same period of the previous two years (see Table 1, which summarizes this and subsequent extended benefit triggers). Also, it was activated nationally whenever the 13-week average of the national IUR reached 4 percent. However, in 1980 and 1981, Congress enacted three changes that made it more difficult for the standby EB program to activate—the IUR needed to activate EB on a state-specific basis was increased from 4 percent to 5 percent, the trigger that had activated EB nationally was eliminated, and the definition of insured unemployment was revised so as to omit EB claimants from the calculation, reducing the IUR in times when EB was activated.¹

In addition to the standard IUR trigger, states currently have the option of choosing either of two alternative EB triggers. Under the first, which has been available since 1981, EB activates when a state’s IUR reaches 6 percent. Under this IUR trigger, the IUR need not exceed its level in earlier years for EB to trigger. Under the second alternative trigger,

which has been available since 1992, EB activates when a state’s total unemployment rate (TUR) reaches 6.5 percent and is at least 10 percent higher than in either of the two previous years. (The TUR is based on the Current Population Survey and published by the Bureau of Labor Statistics. In contrast, the IUR is based entirely on UI program data.)

Unlike standby EB, emergency benefit extensions are enacted by Congress on an ad hoc basis rather than being triggered automatically. There have been seven such extensions, from the Temporary Unemployment Compensation Act of 1958 through the Temporary Extended Unemployment Compensation of 2002 (TEUC), which was enacted and became effective in March 2002, when it became evident that the labor market would not recover quickly following the terrorist attacks of September 11, 2001.² The program has extended exhaustees’ benefits in all states by 50 percent of their regular benefit duration, up to 13 weeks. It also has provided up to an additional 13 weeks of benefits in states where standby EB had triggered on or the IUR was at least 4 percent and at least 20 percent higher than its average in the same period of the previous two years. A total of 12 states paid these additional benefits under TEUC at some point, although by December 2002, only three (Alaska, Oregon, and Washington) were doing so. The program is financed entirely from the federal Extended Unemployment Compensation Account (EUCA).

The original TEUC program expired at the end of 2002, but Congress extended it at the beginning of 2003. As a result, workers with remaining TEUC balances at the end of 2002 could continue to draw emergency extended benefits. Also, new exhaustees of regular benefits can claim TEUC through the last week of May 2003 and can draw TEUC benefits through the end of August 2003. However, the TEUC extension did not provide additional benefits to workers who exhausted their TEUC benefits.

Table 1 Triggers Used to Activate Standby Extended Benefits and TEUC

Trigger	Description	When in effect
4% IUR with 20% increase	State IUR of at least 4%. Also, IUR must be at least 20% higher than its average in the same period of the previous two years.	EB, 8/70 to 8/81 TEUC, 3/02 to 5/03
5% IUR with 20% increase	State IUR of at least 4%; must be at least 20% higher than its average in same period of the previous two years.	EB, 8/81 to present
4.5% national IUR	National IUR of at least 4.5% (no increase specified)	EB, 8/70 to 8/81
5% IUR	State IUR of at least 5% (no increase specified)	EB, 1976 to 8/81 (state option)
6% IUR	State IUR of at least 6% (no increase specified)	EB, 8/81 to present (state option)
6.5% TUR with 10% increase	State TUR of at least 6.5%; must also be at least 10% higher than in the same period of one of the previous two years.	EB, 6/92 to present (state option)

NOTE: IUR is the insured unemployment rate; TUR is the total unemployment rate; EB is the standby extended benefits program; TEUC is the Temporary Extended Unemployment Compensation program that came into effect in March 2002 and is scheduled to expire in May 2003.

Trends in Extended Benefits Payments

In the recessions of the mid 1970s and the early 1980s, the standby EB program was a significant source of benefits for unemployed workers, as shown in Figure 1. However, standby EB has activated rarely since 1981 and was a negligible source of benefits during both the recession of the early 1990s and the current recession.

In a mechanical sense, the reasons for the demise of the standby EB program are clear. First, as mentioned above, Congress revised the triggers in 1981 so as to make it more difficult for EB to activate. This policy choice was based on the belief that the existing triggers resulted in an EB program with work disincentive effects that were unacceptably high. Second, insured unemployment rates, which are used to trigger EB, have shown a downward trend over the last two decades (Vroman 2002). Even if the triggers had not been revised in 1981, the standby EB program would have activated less frequently in the past 20 years than before. Simulations we have run suggest that, under the original standby EB trigger (4 percent IUR with a 20 percent increase), EB would have activated in only 11 states during 2001–2002, covering even fewer unemployed workers and UI exhaustees than it did during the recession of the early

1990s (Woodbury and Vroman 2003; Walters and Wenger 2003).

However, the demise of standby EB has two underlying causes. First, labor markets have been stronger since 1985 than they were between 1970 and 1985. Second, the financing of standby EB is shared by the states and the federal government, whereas emergency extensions have been federally funded. With Congress willing to pass emergency extensions, the states have not pressured Congress to revise the standby EB triggers so that the program activates more frequently. Indeed, during 2002 governors could, and did, terminate standby EB in states where it had triggered on as soon as the current emergency extension (TEUC) passed. This shifted the financing of extended benefits from the states to the federal government.

One could possibly argue that the demise of the standby EB program is an appropriate outcome—if unemployment has fallen secularly, then the demand for unemployment insurance would also fall. However, Congress has continued to pass emergency benefit extensions in each recession, essentially ignoring the downward trend in the unemployment rate and gauging the need for extended benefits with an eye to the median

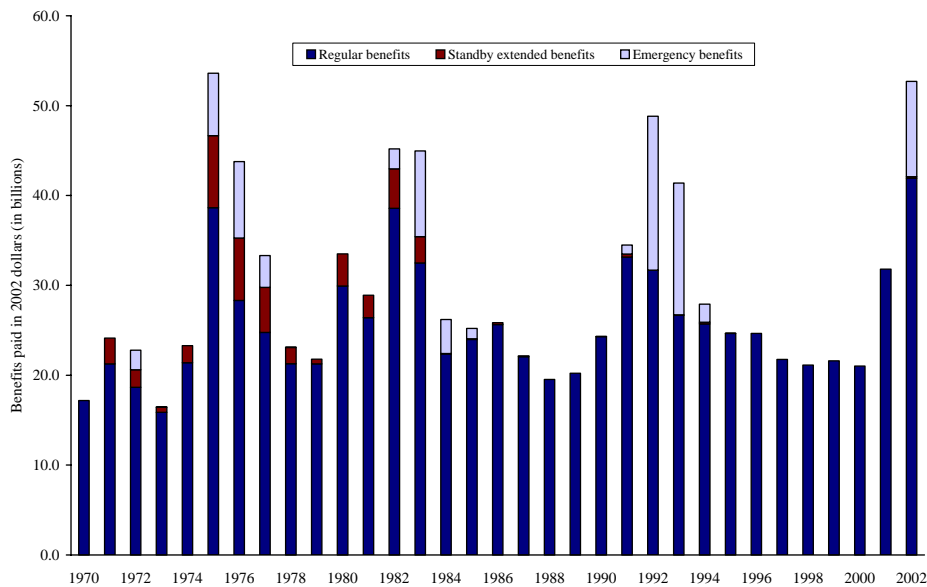
duration of unemployment and the UI exhaustion rate, both of which have trended up over time.³ As Figure 1 shows, the demise of standby EB has been accompanied by the rise of emergency federal UI extensions.

Policy Alternatives

Two obvious policy options exist for addressing long-term unemployment. The first is to expand and/or extend the current emergency extension (TEUC), which provides 13 weeks of extended benefits in most states and is set to expire in May 2003. As yet, there is little evidence of improvement in the labor market, and roughly half of all TEUC recipients have exhausted their emergency benefits. This suggests that Congress should consider expanding TEUC to provide an additional 10 to 13 weeks of benefits to workers who have exhausted their TEUC benefits. It also suggests that an extension of the existing TEUC program through the end of 2003 may well be needed.

A second option is to revive the standby EB program and make it a significant source of extended benefits during recessions. This option would require a rethinking of both the financing and the triggering of standby EB. How to finance extended benefits—whether federally or by the states—has been a source of contention for decades (Blaustein 1993). However, the shared state–federal financing of standby EB has been the downfall of standby EB, and Congress has been willing repeatedly to finance emergency extensions federally. It is time for Congress to acknowledge that the financing of benefits beyond 26 weeks is a federal responsibility and to make the standby EB program federally funded.

Reviving standby EB would also require Congress to lower the IUR trigger, lower the alternative TUR trigger and make it mandatory rather than optional, or adopt a new EB trigger, such as the UI exhaustion rate. The automatic triggering of standby EB has three advantages over emergency extensions. First, emergency extensions are subject to a “recognition lag”—it takes time for Congress to recognize the onset of a recession and to enact legislation, so there may be a long

Figure 1 UI Benefits, by Type, 1970–2002

lag between the onset of slack labor markets and the availability of extended benefits. Second, emergency extensions have been politically difficult to shut down; as a result, they may continue to pay extended benefits beyond the time when labor markets have recovered and when workers can reasonably be expected to find reemployment. Third, emergency extensions have usually been made effective on the date of enactment, leaving UI administrators little or no time to implement the new program. For all these reasons, emergency extensions are likely to be less efficient than automatic extensions.

In January 2003, a third possible option was proposed: the Bush Administration's Personal Reemployment Accounts (PRAs). The PRA proposal has three main features. First, certain UI claimants would be identified as "likely to exhaust" their regular benefits. Second, for these claimants, an account of up to \$3,000 would be established to buy intensive reemployment services, training, and other services like transportation or child care, at the claimant's discretion. Third, if the claimant returns to work within 13 weeks of receiving the first UI payment, he or she would keep whatever balance remained in the PRA. This last feature

creates an incentive for rapid reemployment and gives PRAs the flavor of a reemployment bonus, which has been extensively studied in randomized trials (Robins and Spiegelman 2001).

The size of the worker-managed account—\$3,000—suggests that the PRA is being put forward as an alternative to a further extension of TEUC (13 weeks at the national average weekly benefit amount of \$230 is roughly \$3,000). However, eligibility for PRAs would be restricted to about 12 percent of new UI recipients (President's Council of Economic Advisers 2003), while UI exhaustion rates are currently in excess of 40 percent. Whatever the merits of PRAs as a reemployment policy for workers who are likely to benefit from reemployment assistance and training when labor markets are tight, PRAs cannot be viewed as a substitute for extended benefits when labor markets are slack.

Long-term unemployment is a problem that is generally neglected until it becomes acute, as it does in recessions. The PRA is a proposal that has the potential to help long-term unemployed workers throughout the business cycle and to shorten their unemployment spells. However, it should not be confused with short-term measures like benefit

extensions, which workers will rely on until the labor market recovers.

Notes

1. In addition, more stringent eligibility and disqualifying conditions were imposed on EB claimants. These changes were part of a broader effort by the then-new Reagan administration and Congress to reduce expenditures on domestic programs.

2. For a summary of the emergency extensions up to TEUC, see Woodbury and Rubin (1997).

3. The UI exhaustion rate peaked at 38.2 percent in 1975, 40.8 percent in 1983, 40.1 percent in 1993, and 42.7 percent in 2002.

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